

TARIFF ACTION MEMORANDUM

Date: July 29, 2021

Date Filed: July 16, 2021

Statutory End Date: August 16, 2021

To Commissioners:

Robert M. Pickett, Chairman

Keith Kurber II

Antony G. Scott

Daniel A. Sullivan

Janis W. Wilson

From: Kevin AufDerHeide, Utility Financial Analyst

Subject: TL8-752 – Swanson River Oil Pipeline, LLC, 2021 Interim Tariff Rate Revision

Staff recommends the Commission:

1. Approve Tariff Sheet No. 13, filed July 28, 2021, by Swanson River Oil Pipeline, LLC, with TL8-752 as shown on the attached side-by-side tariff sheets, see KSA-1. The effective date of the tariff sheet should be August 1, 2021.

Signed: Kevin AufDerHeide Title: Utility Financial Analyst
Kevin AufDerHeide

Commission decision re this recommendation:

	DATE (If different from 7/29/2021)	I CONCUR	I DO NOT CONCUR	I WILL WRITE A DISSENTING STATEMENT*
Pickett		<u>RMP</u>		
Kurber		<u>KIL</u>		
Scott		<u>AGS</u>		
Sullivan		<u>DS</u>		
Wilson	<u>7/30/2021</u>	<u>Quin</u>		

*If this column is initialed, Staff will contact the Commissioner for the statement. Otherwise, the dissent will simply be noted at the close of the By Direction letter or order.

MEMORANDUM

To: Robert M. Pickett, Chairman
Keith Kurber II
Antony G. Scott
Daniel A. Sullivan
Janis W. Wilson

Date: July 29, 2021

File: TL8-752

Re: Swanson River Oil
Pipeline, LLC 2021
Tariff Rate Filing

From: Kevin AufDerHeide, Utility Financial Analyst

Recommendations

Staff recommends the Commission:

1. Approve Tariff Sheet No. 13, filed July 28, 2021, by Swanson River Oil Pipeline, LLC, with TL8-752 as shown on the attached side-by-side tariff sheets, see KSA-1 The effective date of the tariff sheet should be August 1, 2021.

Background

The Swanson River Oil Pipeline (SROP)¹ is an eight-inch diameter crude oil pipeline, approximately 18.83 miles in length, that provides transportation of crude oil produced from the Swanson River Field to the piping and terminal facilities of Kenai Pipeline Line Company's Nikiski Marine Terminal.²

In Order P-15-020(5) the Commission accepted, in part, a stipulation filed on October 17, 2016, by SROP and the Office of the Attorney General, Regulatory Affairs and Public Advocacy Section (RAPA). Order P-15-020(5) allowed a temporary rate of

¹ The Commission approved the transfer of ownership of the pipeline from Hilcorp Alaska to Swanson River Oil Pipeline, LLC. See Order P-15-011(3), *Order Granting Joint Application, Accepting Corporate Guaranty, Addressing Previously Filed Guaranty, and Requiring Filings*, dated November 25, 2015. SROP is owned by Harvest Alaska, a subsidiary of Hilcorp Alaska.

² See Tariff Agreement by and between SROP and RAPA, filed November 29, 2016.

\$0.42 per barrel to go into effect November 1, 2016.³ RAPA and SROP entered into a settlement agreement dated November 29, 2016, which established the Swanson River Oil Pipeline Methodology (SROPM) for calculating annual maximum rates on SROP's pipeline. The Commission accepted the 2016 Settlement Agreement which made the \$0.42 per barrel rate permanent.⁴

The Settlement Agreement specifies that SROP is required to file by December 1 of each year a transportation rate for the following calendar year. On December 24, 2020, the Commission issued LO200457, approving the rate of \$5.54 per barrel.⁵

Filing

On July 16, 2021, SROP filed TL8-752,⁶ proposing to decrease its rate for the intrastate transportation of petroleum from the Swanson River Field to the Tie-In point with KPL Facilities at the Nikiski Marine Terminal, from \$5.54 per barrel (bbl)⁷ to \$0.29 bbl, effective on August 1, 2021. This filing is not a normal annual update filing. TL8-752 included a copy of Tariff Sheet No. 13, a hard copy printout of the 2021 rate model, and SROP's subscribers list.

SROP asserted the primary reason for the large mid-year decrease in the rate is due to the discovery of an error in the SROP tariff model which double counted certain expenses. Specifically, costs in the "Sch. 7 Normalization" tab of the model were included in the cost of service in both the Operating Expense line and the Amortization of

³ Order P-15-020(5), Order Accepting Stipulation, In Part; Allowing Collection of Temporary and Refundable Rate; and Requiring Filing, dated October 27, 2016.

⁴ Order P-15-020(07), Order Granting Joint Motion, Accepting Agreement, And Requiring Filings, dated December 14, 2016.

⁵ TL7-752, filed on December 1, 2020, as an annual rate update by SROP.

⁶ On July 28, 2021, SROP filed a supplement correcting margin notations on Tariff Sheet No. 13.

⁷ This rate was filed in TL7-752 and approved with L200457, dated December 24, 2020, effective January 1, 2021.

Capitalized MMI line. Additionally, the Operating Expenses in the "Sch. 6 OPEX" tab of the model included these costs a third time.⁸

SROP state that to prevent a large over-collection that failure to correct the error would have caused, SROP is making this mid-year reduction to prevent a likely negative rate for 2022 once the carryover is calculated under the currently effective SROP tariff settlement agreement. Additionally, the cancelation of a large expense project contributes to the expected over-collection in 2021.⁹

SROP also asserts they have consulted with the State of Alaska about this course of action and the State of Alaska has stated its non-opposition to consideration of this tariff reduction on less than thirty days notice. SROP also states that on or before July 16, 2021, a copy of the revised tariff sheet has been sent to each subscriber on SROP's attached subscribers list.¹⁰

Notice

TL8-752 was noticed to the public on July 21, 2021, with a comment period ending July 28, 2021.¹¹ No comments were filed.

Analysis

Staff reviewed the components¹² of the Settlement Agreement provided with TL8-752 and found nothing to suggest that the rates were not calculated in accordance with the SROP. Staff reviewed the Settlement Agreement¹³ noting that the cost of service is calculated as follows: Operating Expenses + Amortization of Unusual or Non-Recurring Costs as permitted by RCA regulatory policy or precedent + Depreciation Expense + Return on Rate Base + Net Carryover. Under the SROP and for the remainder of 2021,

⁸ TL8-572, page 1.

⁹ TL8-752, page 1.

¹⁰ TL8-752, page 2.

¹¹ See memo of July 21, 2021.

¹² See Sections II-3, II-5(b) &(d), II-6(a), II-8, II-9, and II-10 of the Settlement Agreement.

¹³ See Section II-3(a) of the Settlement Agreement.

the maximum rate is calculated by dividing the projected total cost of service for the remainder of the year and by the remaining projected throughput volumes.¹⁴

Staff also reviewed the model and verified SROP's assertion that the decrease in rates is primarily due to over collection in the first part of 2021 due to the errors noted above. Staff verified that the stipulated balances¹⁵ and rates of return¹⁶ have been properly utilized in SROP's TL8-752 rate calculations, and the calculations otherwise appear to comply with the Settlement Agreement.

Staff has not recalculated the model's computations, but rather accepts that the SROP model accepted by the Commission in Order 7, functions as designed. Staff notes they were not able to independently verify the individual cost components or throughput volumes of the 2021 rate calculation update because much of the 2021 rate calculation is derived from company estimates, to which Staff does not have access. Therefore, Staff is relying on the settling parties to protest the proposed rate by filing comments during the public notice period if they believe the proposed rates violate the SROP.

Conclusion

Based on Staff's limited review of TL8-752¹⁷ and the lack of comments or protest by the State of Alaska, other shippers, or any other person, Staff recommends the Commission approve Tariff Sheet No. 13, filed in TL8-752 on July 28, 2021, effective August 1, 2021.

Signature: 
Email: bob.pickett@alaska.gov

Signature: 
Keith Kurber II (Jul 29, 2021 09:01 AKDT)
Email: keith.kurber@alaska.gov

Signature: 
Email: antony.scott@alaska.gov

Signature: 
Daniel Sullivan (Jul 30, 2021 11:32 AKDT)
Email: daniel.sullivan@alaska.gov

Signature: 
Janis W. Wilson (Jul 30, 2021 11:38 AKDT)
Email: janis.wilson@alaska.gov

¹⁴ See Section II-1 of the Settlement Agreement.

¹⁵ See Sections II-5(b) & (d), II-6(a), and II-8(b), of the Settlement Agreement.

¹⁶ See Section II-9(b)-(e) of the Settlement Agreement.

¹⁷ As explained above.

RCA No. 752

Sixth Revised

Sheet No. 13

Cancelling

Fifth Revised

Sheet No. 13**RECEIVED****DEC 01 2020**STATE OF ALASKA
REGULATORY COMMISSION OF ALASKA**SWANSON RIVER OIL PIPELINE, LLC**

	<u>FROM</u>	<u>TO</u>	<u>RATE CENTS PER BARREL OF 42 UNITED STATES GALLONS</u>
3.1	Swanson River Field, Kenai Peninsula	Tie-In Point with KPL Facilities at Nikiski Marine Terminal	554 [R]

[R] denotes a Reduction

TL7-752

Effective: January 1, 2021

Issued by: Swanson River Oil Pipeline, LLC

By: 

Richard Novcaski

Title: Vice President
Swanson River Oil Pipeline, LLCRCA No. 752

Seventh Revised

Sheet No. 13

Cancelling

Sixth Revised

Sheet No. 13**SWANSON RIVER OIL PIPELINE, LLC**

	<u>FROM</u>	<u>TO</u>	<u>RATE CENTS PER BARREL OF 42 UNITED STATES GALLONS</u>
3.1	Swanson River Field, Kenai Peninsula	Tie-In Point with KPL Facilities at Nikiski Marine Terminal	29 [R]

[R] denotes a reduction

TL8-752

Effective: August 1, 2021

Issued by: Swanson River Oil Pipeline, LLC

By: 

Andrew Limmer

Title: Vice President, Harvest Alaska, LLC
Member of Swanson River Oil Pipeline, LLC**= E3Z#**